

Employment Forecast Update (2011-2013)

November 1st, 2012



HIGHLIGHTS

- ✓ Nonfarm jobs gains of 51,200 in 2012 and 60,900 in 2013 is forecast. A total of 112,200 jobs are forecast to be gained over the two year period (2011-2013)
- ✓ Ten of eleven sectors are forecast to add jobs over the two-year period, one to have losses
- ✓ OTY Nonfarm employment growth rate of 2.1% in 2012 and 2.5% in 2013 is forecast
- ✓ Professional and Business Services (PBS) sector will add the largest number of Nonfarm jobs (21,500) over the two-year period
- ✓ The Construction sector is expected to have the largest percentage gain in number of Nonfarm jobs (13,100 jobs or 11.8%) over the two-year period
- ✓ Educational and Health Services (EHS) (20,400 or 5.7%), Trade, Transportation, and Utilities (TTU) (19,900 or 4.2%), and Leisure and Hospitality (L&H) (18,100 or 7.0%) are also expected to grow over the two-year period

Positive Economic Trends

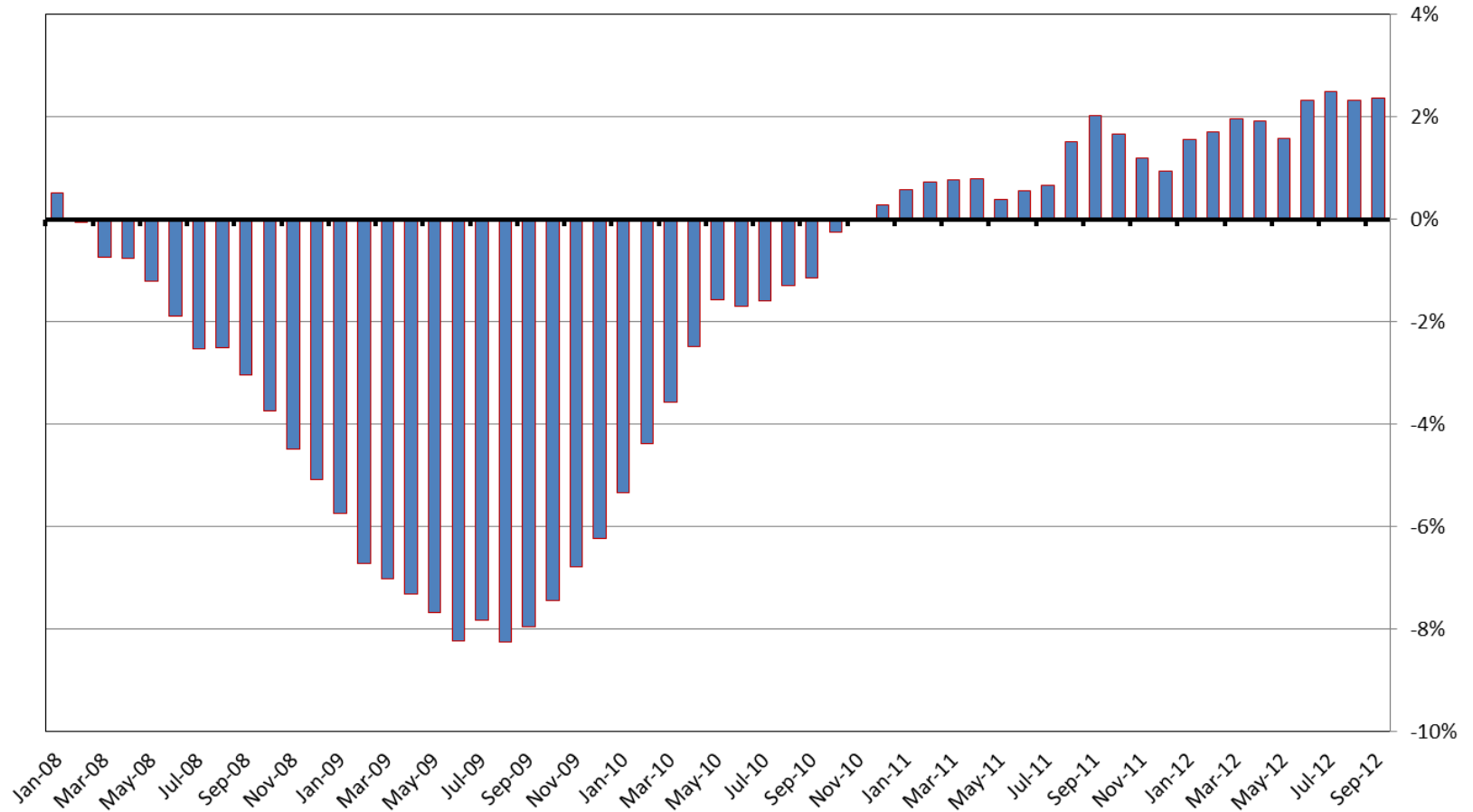
- ✓ Continued improvement in real Gross Domestic Product (GDP), real personal income at the state and national levels, employment, and retail sales.
- ✓ Continued employment gains in the Private sector, increasing private domestic investment, gradual increase in the index of industrial production and rate of capacity utilization, high levels of corporate profit, a gradual resurgence in private residential construction permits.
- ✓ Continued gradual climb in household net worth as the decline in U.S. home prices have slowed, a continued decline in the fraction of disposable income used for household debt payments, and continued growth in U.S. exports.

Positive Economic Trends Continued

- ✓ Home prices have stabilized in Arizona and have begun to rise in the Phoenix metropolitan area. Residential real estate market in Arizona and Phoenix metropolitan area is showing an improvement as measured by increased building permits. These include rising levels of private residential construction spending, building permit activity and private residential fixed investment.
- ✓ While revolving credit levels have remained flat, an expansion of non-revolving consumer credit since 2011 has served as an impetus to expanding economic activity. Consumer confidence and consumer spending has shown signs of improvement.

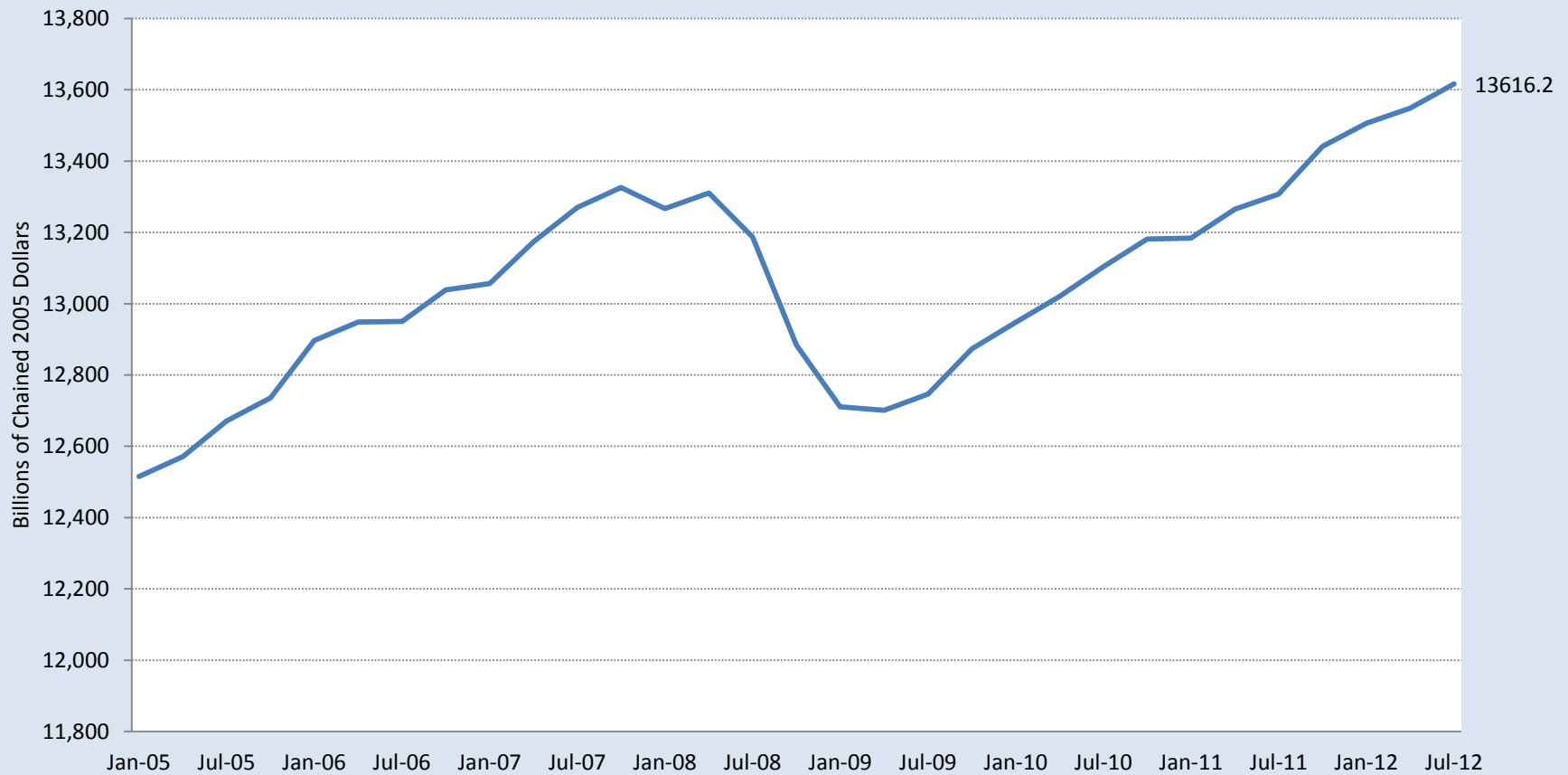
Arizona Non Farm Employment Over the Year % Change

Jan '08 - Sept '12



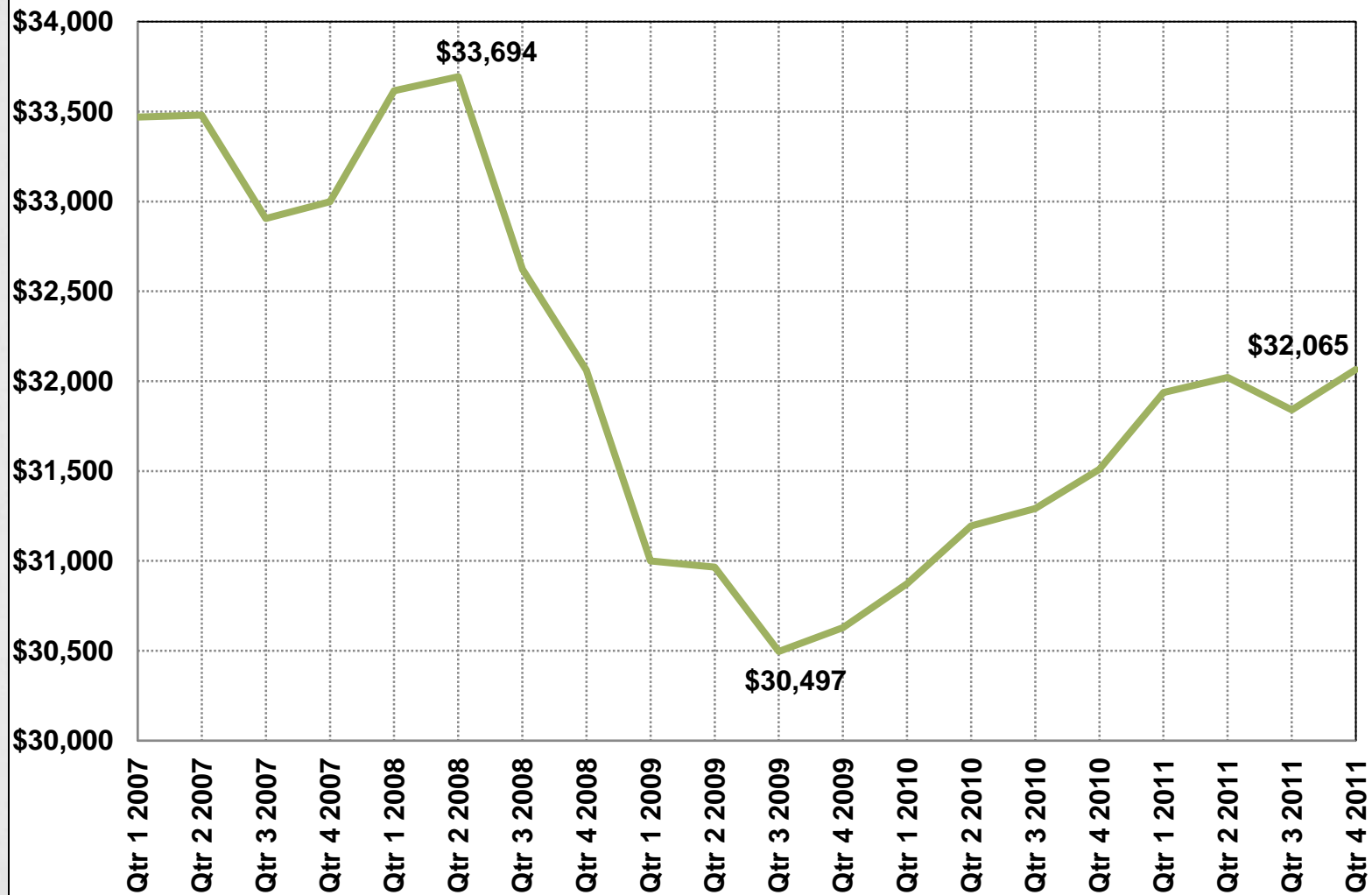
23 Months of positive over-the-year job gains

U.S. Real Gross Domestic Product



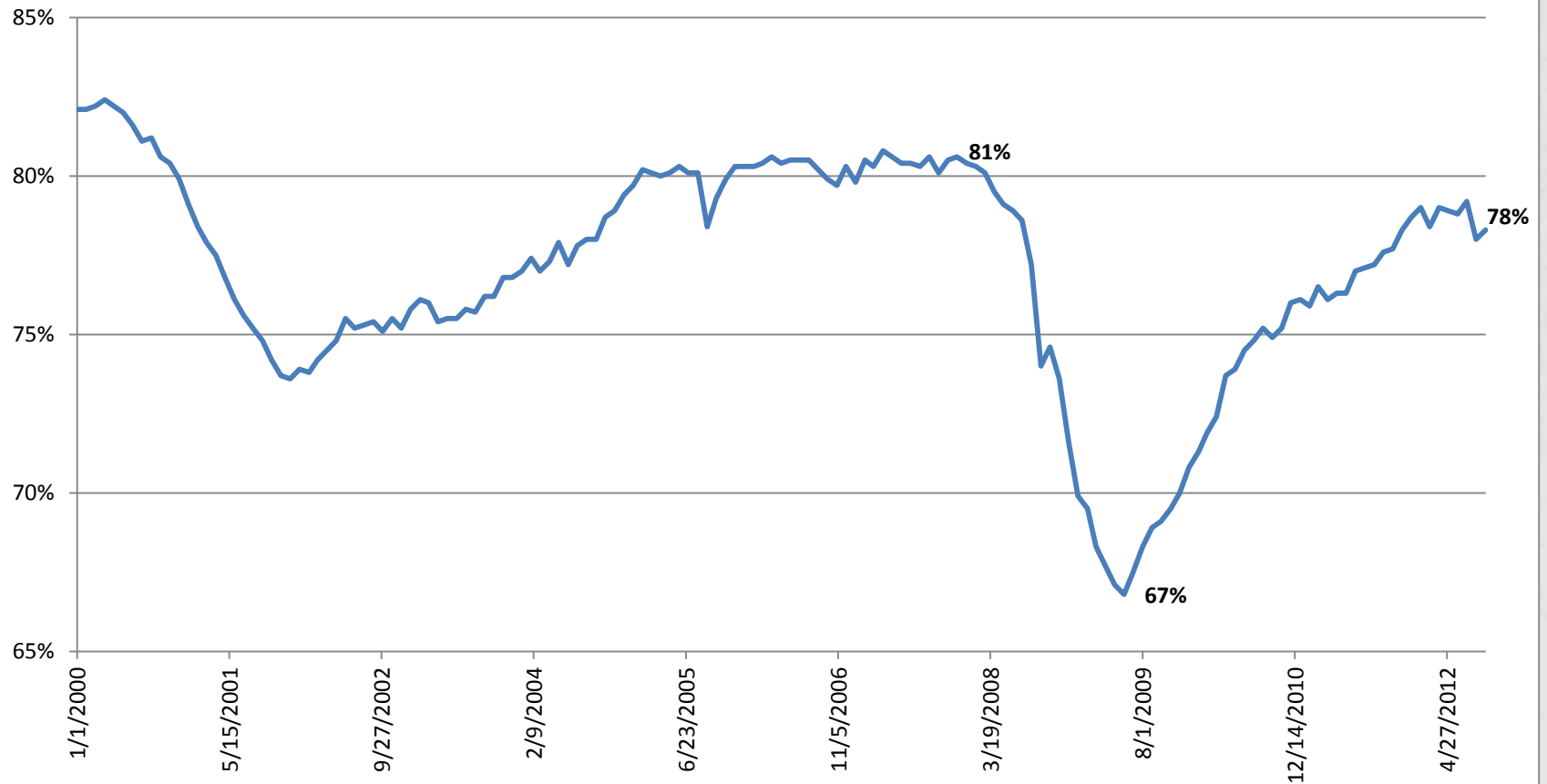
Source: U.S. Department of Commerce: Bureau of Economic Analysis/FRED

Arizona's Real Per Capita Personal Income (2005 dollars)



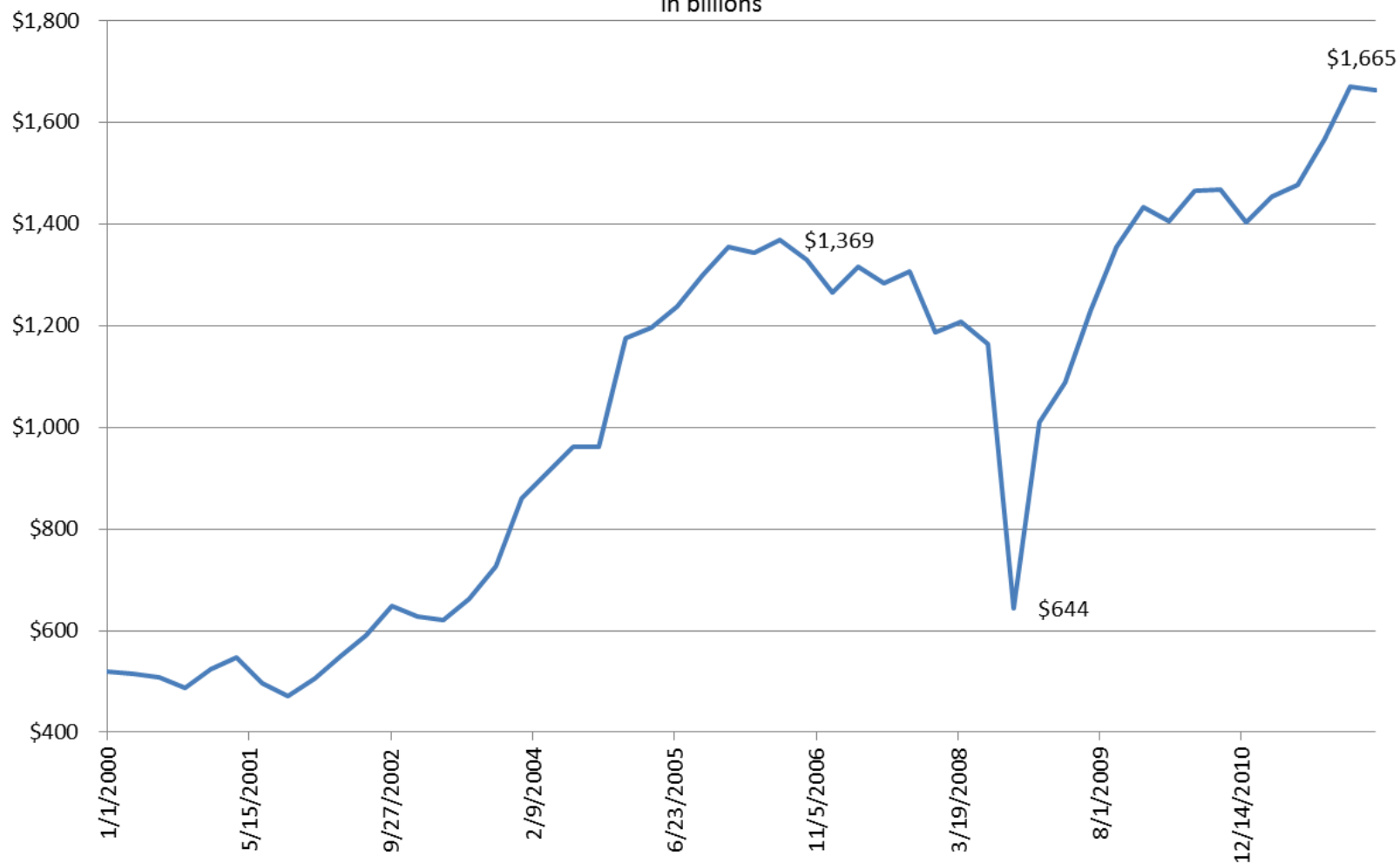
Source: U.S. Department of Commerce: Bureau of Economic Analysis/FRED

Capacity Utilization: Total Industry



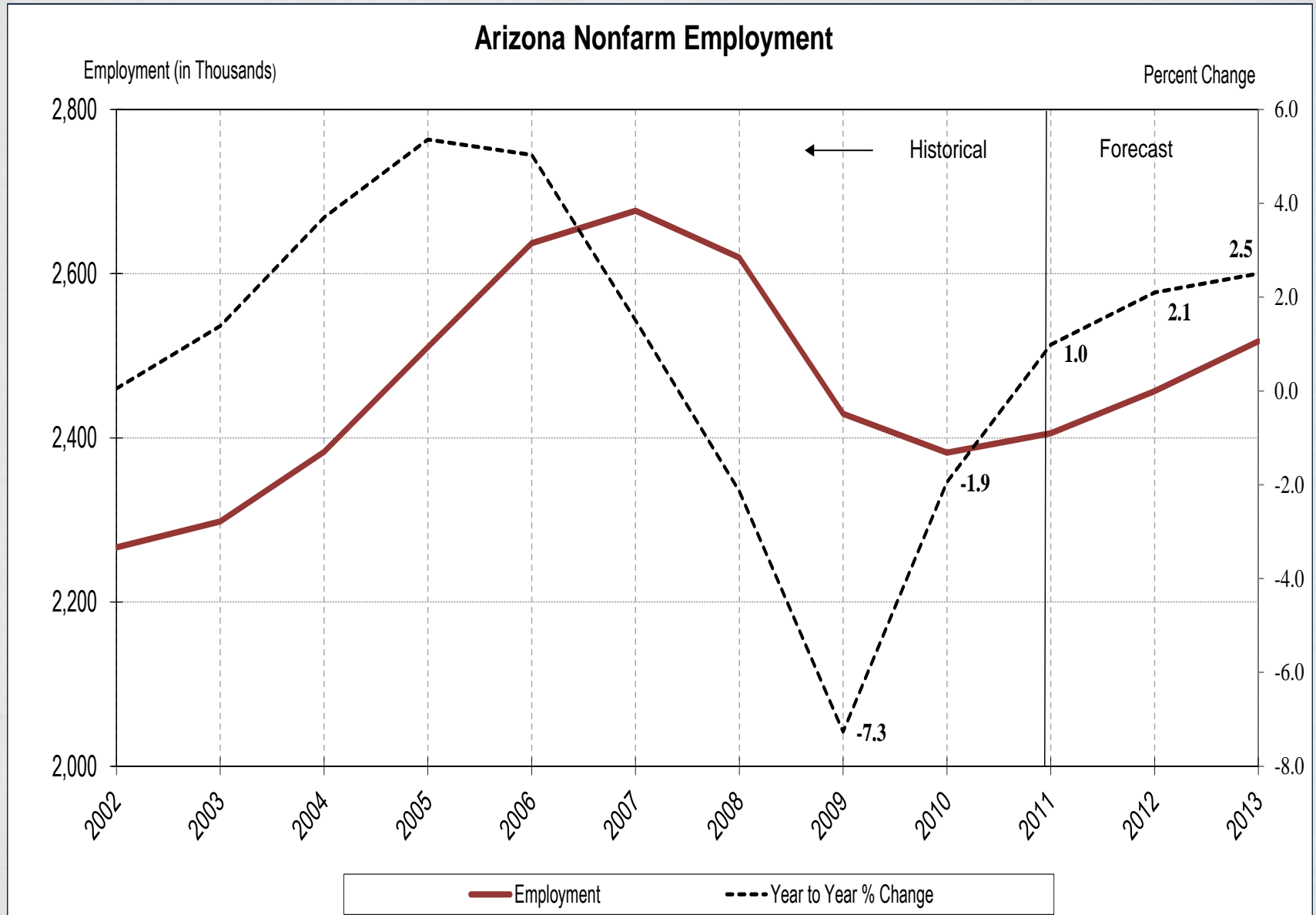
Source: U.S. Department of Commerce: Bureau of Economic Analysis/FRED

Corporate Profits After Tax, in billions



Source: U.S. Department of Commerce: Bureau of Economic Analysis/FRED

Nonfarm job gains will continue to grow in 2012 and 2013



Over the year gain of 51,200 in 2012 and 60,900 in 2013

OTY growth rate for Nonfarm employment, faster in Phoenix MSA, but lower in Tucson MSA and Balance of State

Total Nonfarm Employment

Annual Average Growth Rate

	2011 ^(a)	2012 ^(b)	2013 ^(b)
Arizona	1.0%	2.1%	2.5%
Phoenix MSA ¹	1.4%	2.6%	2.8%
Tucson MSA ²	0.1%	0.6%	1.0%
Balance of State ³	-0.3%	1.6%	2.3%

Slightly
Faster
Growth

1) Maricopa and Pinal counties

2) Pima County

3) Arizona less Maricopa, Pinal, and Pima counties

a) Historical (BLS Current Employment Statistics)

b) Forecast

Projected Total Nonfarm Employment

Annual Average OTY Change

	2012^(b)	2013^(b)
Arizona	51,100	60,900
Phoenix MSA ¹	43,700	49,300
Tucson MSA ²	2,200	3,600
Balance of State ³	5,300	8,000

1) Maricopa and Pinal counties

2) Pima County

3) Arizona less Maricopa, Pinal and Pima counties

a) Forecast

Numbers may not add due to rounding error

Ten of Eleven sectors forecast to gain jobs in 2012 and 2013

Arizona Sector Employment

Average Annual Over-the-Year Change

	2011 ^(a)	2012 ^(b)	2013 ^(b)
Total Nonfarm	1.0%	2.1%	2.5%
Construction	0.2%	5.5%	5.9%
Leisure & Hospitality	2.0%	3.3%	3.5%
Profess & Business Svcs	1.1%	2.9%	3.3%
Financial Activities	1.3%	3.0%	3.1%
Educational & Health Svcs	2.9%	2.7%	2.9%
Trade, Trans. & Utilities	1.0%	2.0%	2.2%
Manufacturing	0.8%	1.4%	1.9%
Government	-1.4%	0.5%	0.9%
Information	0.5%	-0.1%	0.8%
Natural Resources & Mining	6.4%	1.9%	0.4%
Other Services	1.6%	-1.8%	-1.0%

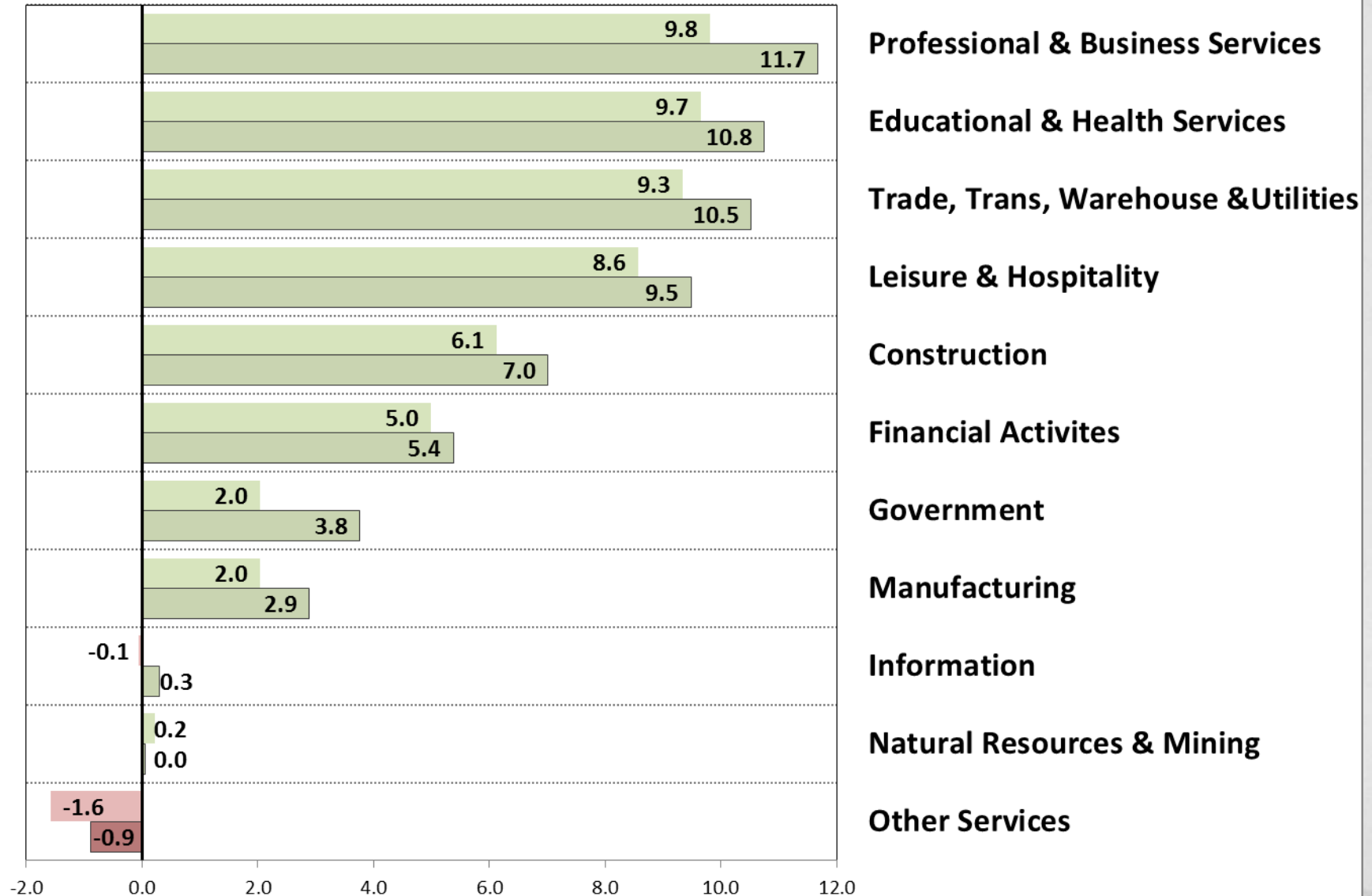
a) Historical (BLS Current Employment Statistics)

b) Forecast

2012 & 2013 Arizona Annual Net Job Gain by Sector,

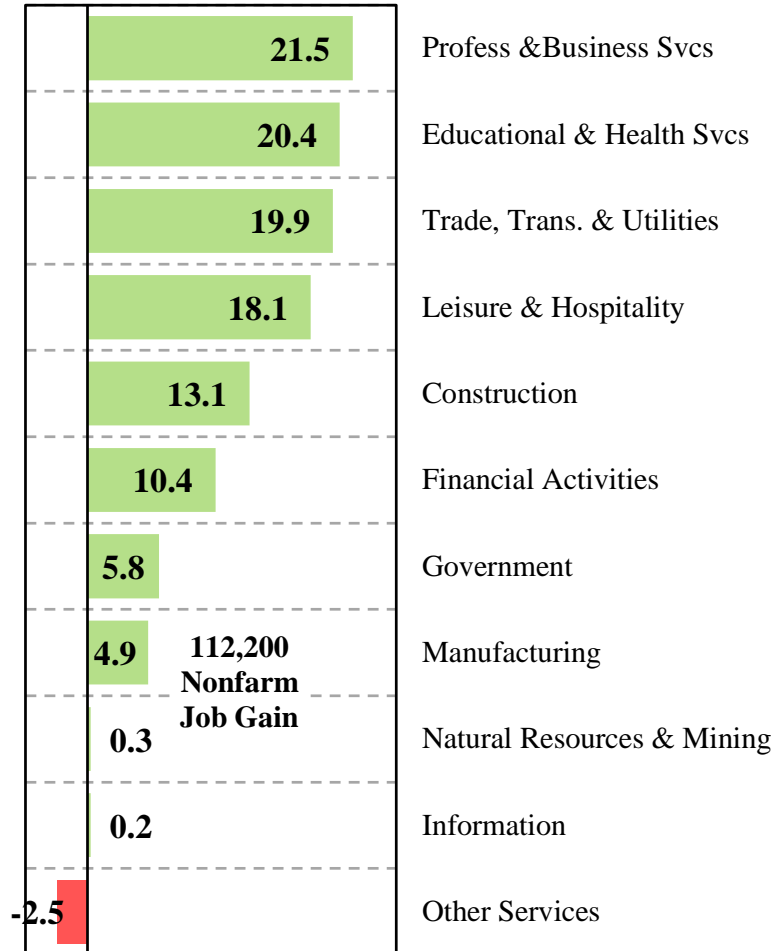
in thousands

2012 2013

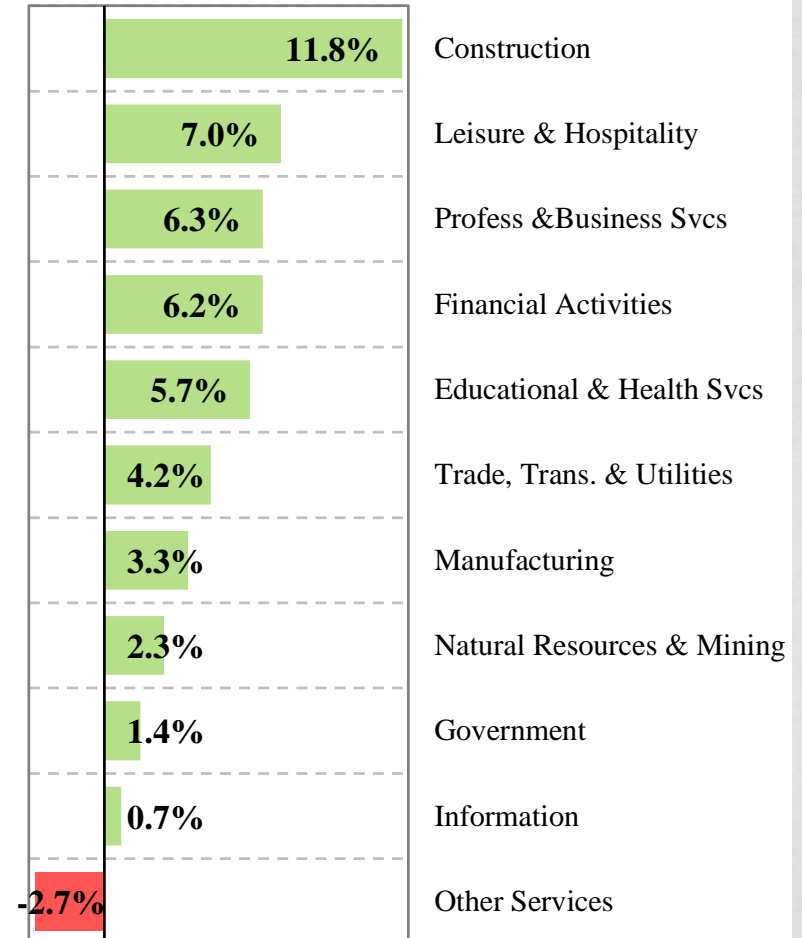


Professional and Business Services is forecast to gain the largest number of jobs and Construction is forecast to have largest percentage gain from 2011 to 2013

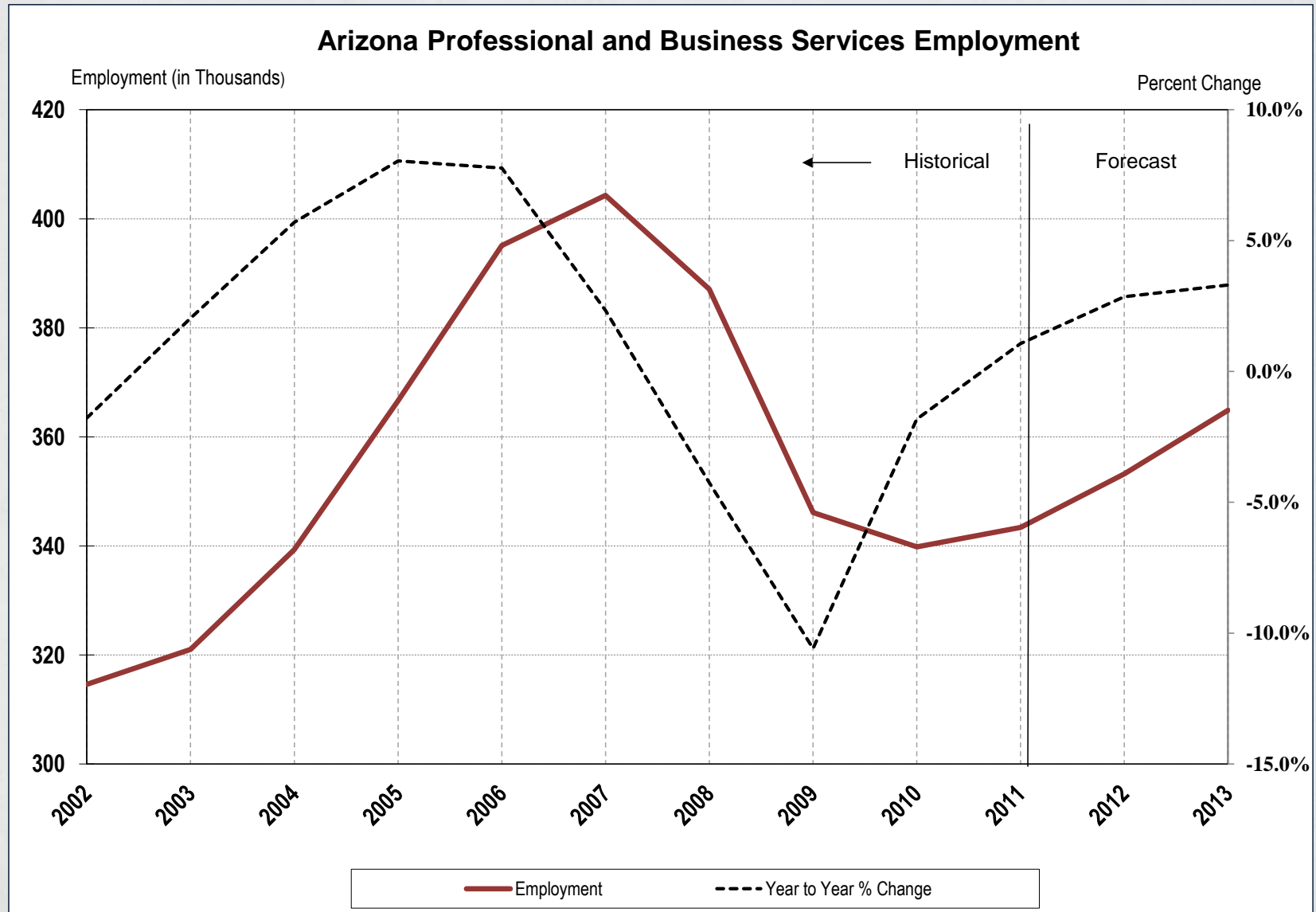
**2011 to 2013 Job Gains by Sector,
in thousands**



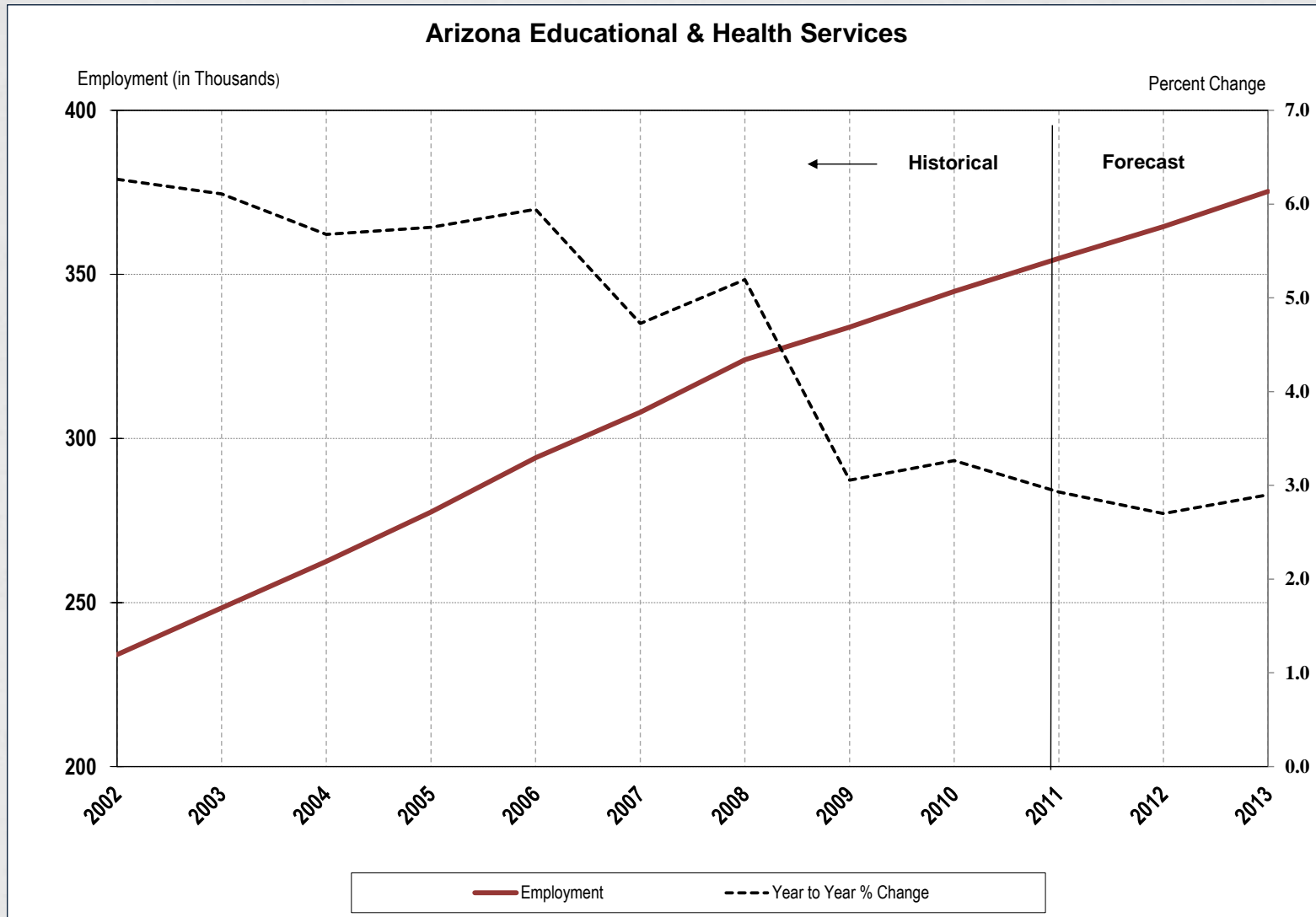
**2011 to 2013 Job Gains by Sector,
percentage**



Largest employment gains forecast in PBS (21,500 jobs or 6.3%) (2011-2013)



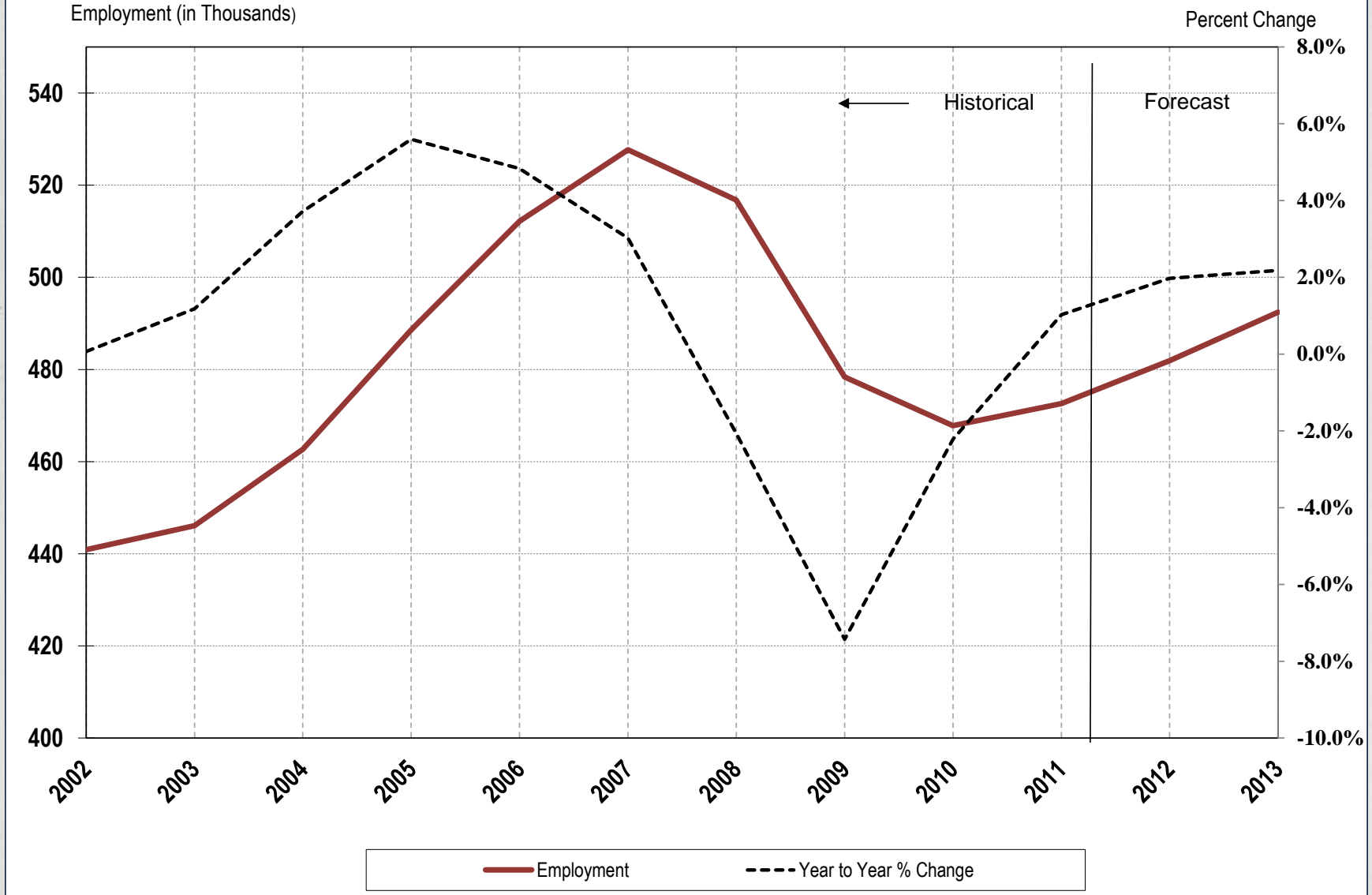
EHS forecast to have job gains of 20,400 or 5.7% (2011-2013)



The largest projected increases are forecast in the Ambulatory Health Services and Hospitals sub-sectors

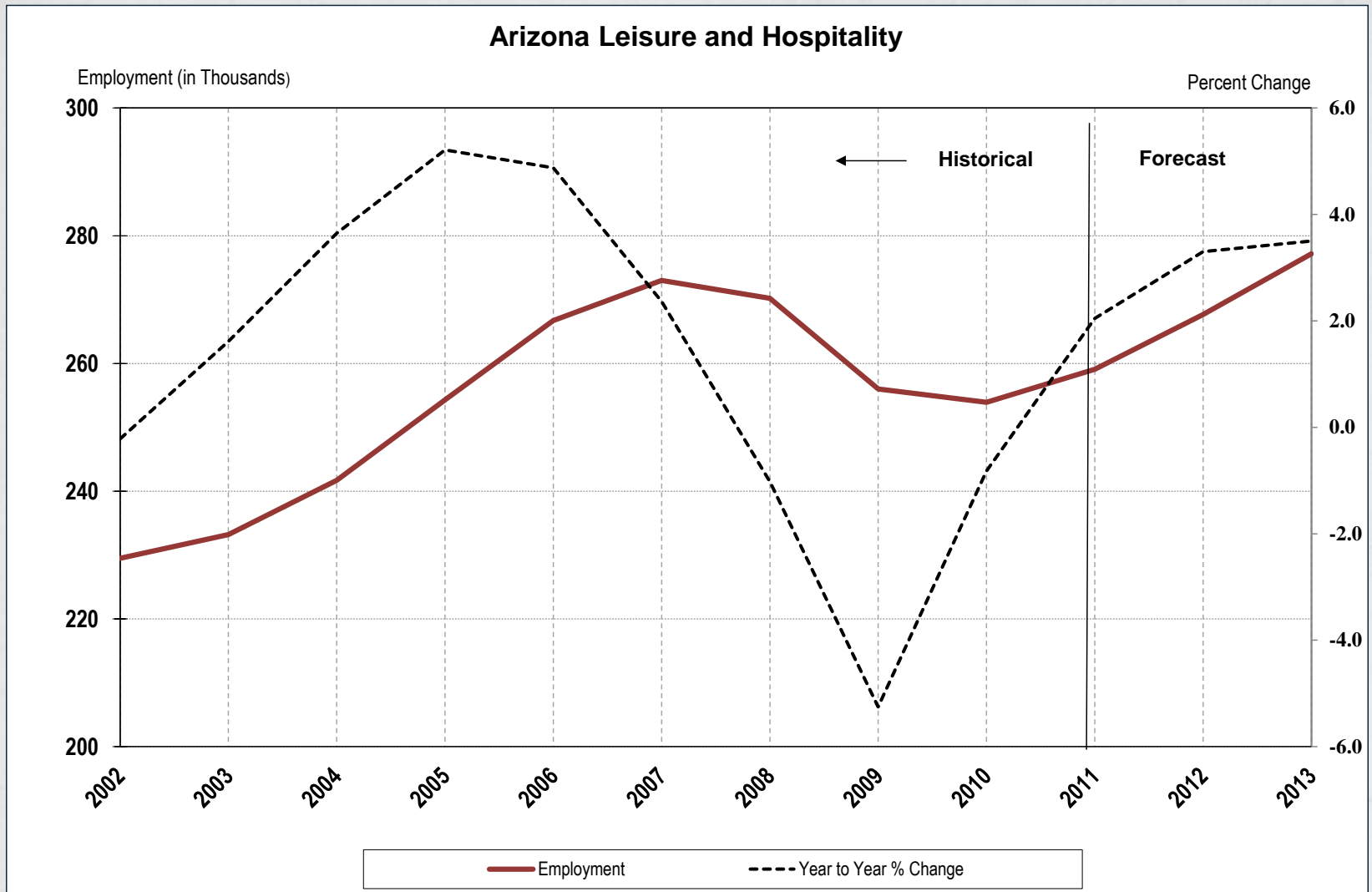
TTU sector forecast to gain 19,900 jobs or 4.2% (2011-2013)

Trade, Transportation, Warehouse/Utilities



- Job gains in Transportation and Warehousing, are forecast in both 2012 and 2013.
- The Retail Trade sector is forecast to have the largest increases in employment

L&H forecast to gain 18,100 jobs or 7.0% between 2011 & 2013



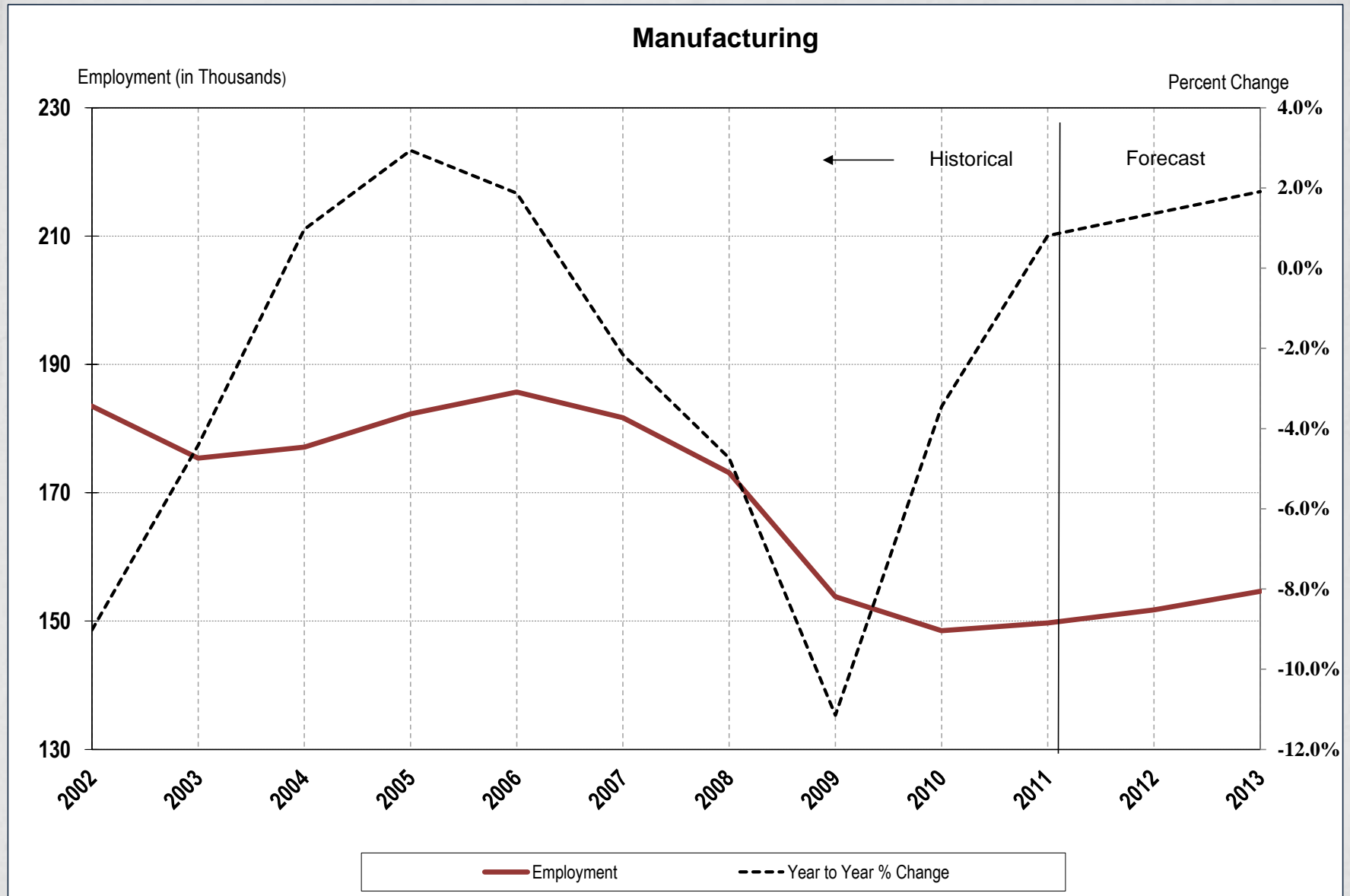
- Increased domestic and international travel and tourism are forecast to result in job gains for the L&H industries
- A majority of these projected increases are in the Food Services and Drinking Places and Arts, Entertainment, and Recreation industries

Construction sector expected to gain 13,100 jobs or 11.8% (2011-2013)



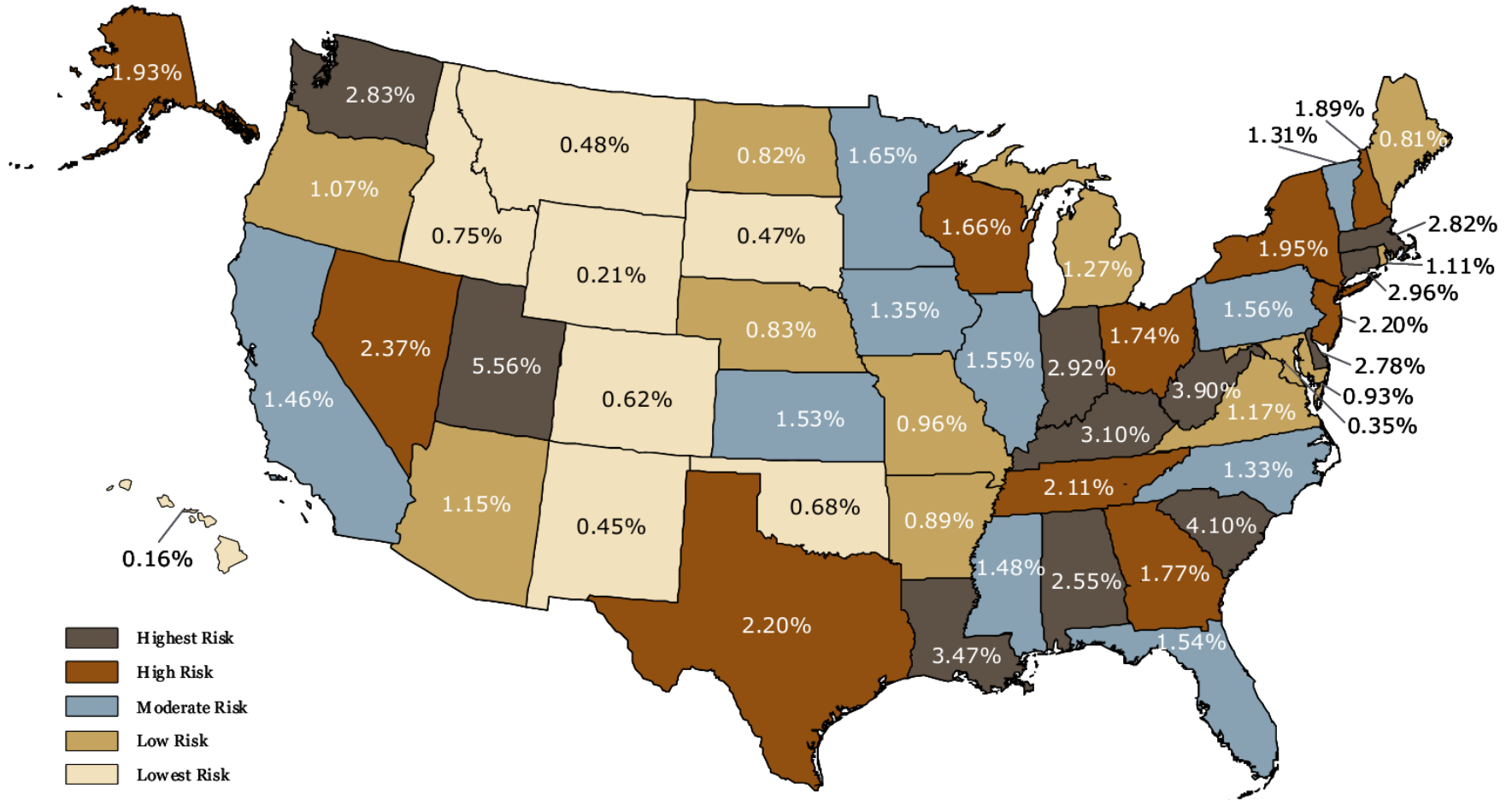
- Projected increases concentrated in Specialty Trades and Heavy and Civil Engineering Construction industries, losses in Building Construction
- Repair and maintenance activities along with new infrastructure projects such as the expansion of light rail in Phoenix is expected to bolster employment in Construction industries

Manufacturing sector expected to gain 4,900 jobs or 3.3% (2011-2013)



- Job gains are forecast in Durable goods sub-sectors; Fabricated Metals, Aerospace, Computer and Electronic products, and Non-Durable goods

European Exports as a Percent of GDP



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Potential Uncertainties

- Rising food and petroleum prices could absorb a greater fraction of household spending, leaving less disposable income
- The public debt crisis in the Euro Monetary Zone has the potential to depress economic activity and European demand for exports, thus contributing to a slowing of economic growth in many parts of the world
- Economic growth is slowing in the People's Republic of China (PRC) which would reduce imports from the U.S.
- Constrained federal, state, and local budget, and the imminent “fiscal cliff” could potentially inhibit the growth of demand for goods and services
- Continued weakness in the commercial and residential real estate markets could pose additional risks

The positives listed in earlier slides outweigh the uncertainties listed above in support of our forecast.

Release Schedule:

***October Employment Report
Thursday, November 15, 2012, 10 am***

***Arizona Department of Administration
100 N 15 Ave
Room 440
Phoenix, AZ***

Thank You!

Any Questions?

